

Service Area Plan

Department of Business Assistance

Financial Services for Economic Development (53423)

Service Area Background Information

Service Area Description

The Financial Services service area implements the Virginia Small Business Financing Act, assisting Virginia's new and existing businesses, as well as businesses expanding into Virginia, by increasing access to capital through the creative application of public and private financing. The goal is to maximize employment opportunities and investment throughout the Commonwealth.

Service Area Alignment to Mission

This service area directly aligns with DBA's mission to promote economic growth by helping Virginia businesses prosper.

Service Area Statutory Authority

Chapter 22, Sections 2.2-900 through 904 provides for the establishment of the Department of Business Assistance and its divisions, and establishes the authority of the department director.

Sections 2.2-2279 through 2308, known as the Virginia Small Business Financing Act, recognizes the need to assist small businesses in obtaining financing which in turn will promote and develop the long-term economic development of the Commonwealth through the improvement of its tax base and the promotion of employment. The Act establishes the governmental body, the Virginia Small Business Financing Authority, and the structure, powers, duties, and authority of this public body corporate and political subdivision of the Commonwealth.

Section 2.2-2309 establishes the creation, administration, and management of the Virginia Export Fund. All funding for this program was removed in 2000.

Section 2.2-2310 establishes the creation, administration, and management of the Virginia Small Business Growth Fund, also known as the Virginia Capital Access Program.

Section 2.2-2311 establishes the creation, administration, and management of the Capital Access Fund for Disadvantaged Businesses.

Sections 10.1-1197.1 establishes the creation, administration, and management of the Small Business Environmental Compliance Assistance Fund.

Sections 59.1-284.1 establishes a permanent revolving fund known as the Virginia Economic Development Revolving Fund. This fund was eliminated during the 2005 General Assembly session and the funds granted to a non-profit entity.

The VSBFA and the DBA also have entered into a Cooperative Agreement with the Virginia Tobacco Indemnification and Revitalization Commission for the creation, administration, and management of the Southside Tobacco Region Capital Access Program. Authority for entering into this Agreement is established within the Virginia Small Business Financing Act.

Service Area Customer Base

Customer(s)	Served	Potential
Banks	38	140
Local and Regional Economic Development Agencies	200	400
Local Industrial/Economic Development Authorities	7	150
Small Businesses financed	183	172,000
Small Businesses served	1,538	172,000
State Agencies	5	136

Service Area Plan

Department of Business Assistance

Financial Services for Economic Development (53423)

Anticipated Changes In Service Area Customer Base

The need for financing for new and expanding small businesses has been described by some knowledgeable people in the industry as “infinite”. Historically, demand has exceeded supply in all types of financing. With the change in our economy away from a manufacturing base to a service based economy, requests for financing short term working capital and “soft” assets, items with no real collateral value, has become more prevalent.

With the growth in “technology-based” entrepreneurs, especially in Northern Virginia, and the concurrent decline in equity financing since 2001, the number of requests that require equity infusions has remained strong and continues to appear to be a need, especially in the area of “seed” financing.

As more large businesses consolidate to gain efficiencies and improve profit margins, more small businesses are created. According to the SBA, as of 2003 (the most current data available), Virginia had 548,100 small businesses, up 1.4% from 2002 and self employment increased by 12.4% over the same time period. Given that financing is always a critical component to any new or expanding small business, it can be assumed that the need for financing will increase as the number of small businesses increases.

In order to improve efficiency within state government, the VSBFA has partnered with a number of state agencies to create and administer financing programs for them. There continue to be state agencies that offer financing programs that could take advantage of the existing infrastructure that currently exists within the VSBFA. The VSBFA continues to be a resource for the marketing efforts of the Virginia Economic Development Partnership and is frequently brought in to discuss financing needs with their prospective clients.

Service Area Products and Services

- **Direct Loans:** Through its “gap” financing and certain market specific loan programs, the VSBFA provides direct loan financing to businesses and local industrial and economic development authorities statewide. Loan programs such as the federally-funded Economic Development Loan Fund (EDLF) and Defense Conversion Loan Fund (DCLF), in which the VSBFA partners with private debt and equity financing to provide fixed asset and permanent working capital loans; the Child Day Care Program (CDC), in partnership with DSS to provide “soft cost” financing to family home providers and child day care centers; and the Environmental Compliance Assistance Fund (ECAAF), in partnership with DEQ to provide fixed asset financing to small businesses for purposes of improving the environment, are all examples of our direct loan programs.
- **Indirect Loans:** Providing deficiency guarantees to banks for specific small business loans through our Loan Guaranty Program (LGP) or providing loan portfolio insurance to banks to mitigate the risk on a portfolio of small business loans made by banks through our Virginia Capital Access Program (VCAP) and our Southside Tobacco Region Capital Access Program (TCAP).
- **Conduit Financing:** The VSBFA is the statewide issuer of industrial development bonds to qualifying small manufacturers and 501 c 3 non-profit entities through our Industrial Development Bond Program (IDB). The VSBFA also serves as the Commonwealth’s administrator of the statewide private activity bond allocation for all housing and industrial bond issuances as well as the Governor’s discretionary pool.
- **Technical Assistance/Resources:** The VSBFA provides financial counseling to businesses and business owners who express a need for financing but do not know the necessary steps, procedures, and tools to obtain such financing through public and/or private sectors.

Service Area Plan

Department of Business Assistance

Financial Services for Economic Development (53423)

Factors Impacting Service Area Products and Services

As the number of small businesses increase in Virginia, the need for providing financing to those businesses will also increase. While some of these businesses will be able to obtain financing through the private sector, a percentage will require government assistance to obtain the financing needed to grow and add more jobs. The increase in the number of small businesses is coinciding with a decrease in the availability of financing for start ups and high growth companies as banks continue to focus on improving credit quality and the efficient delivery of loan products through credit scoring. Both of these factors should cause an increase in the demand for government financing products, especially in the distressed rural and urban areas of the Commonwealth. The dollar amount of loans made by Virginia's commercial banks decreased by 42% during the period of 1993 – 2003 (most current years available). The majority of bank lending done today is in the areas of commercial and consumer real estate. This demonstrates the need for alternative sources like government financing programs.

Demand for loan programs targeted to assist specific industry segments such as tourism, motorsports, adult day care, and the agriculture/agri-business industries; and loan programs targeted to address specific needs in particular geographic regions, such as Virginia's Tobacco Region, are also expected to increase. There continues to be a gap in the ability for businesses to obtain "seed" equity financing. This is an area that DBA and the VSBFA has attempted, and will continue, to address.

The VSBFA is rapidly approaching a point where most of its loan programs will exhaust their available funding. The VCAP program is projected to run out of funding in FY 2006. The EDLF and LGP programs could also be deplete of funding in FY 2006 based on historical usage. Since 1995, the programs of the VSBFA have received only \$1,150,000 in general fund appropriations and have lost \$11,950,000 in budget cuts since FY 2001.

VSFBA staffing is paid through revenue generated from fees and interest earned through the loan programs. Due to the cuts to the programs, staffing has been reduced and service delivery has suffered and will continue to be affected. In order to make the citizens of the Commonwealth aware of the services the VSBFA offers, and in order to service our economic development partners, a consistent funding source must be found to support the VSBFA. In addition, the VSBFA will face increased difficulty in filling vacancies as the funding support for the programs deteriorates, coupled with the increasing wage rates paid in the private sector for experienced commercial lenders.

Anticipated Changes To Service Area Products and Services

The demand for VSBFA products and services are anticipated to increase as the banking industry continues to consolidate and maintain tight credit standards and the equity financing industry continues to steer clear of "seed" investments.

Interest rates are also expected to rise which will increase the cost of private sector financing and place additional expense on fledgling businesses, squeezing their cash flow, and reducing their prospects for growth.

Anticipated reductions in federal support of community development through the President's proposed elimination of the Community Development Fund and drastic reductions to the Community Development Block Grant Program and the Economic Development Administration will place more of a burden on state and locally funded programs to assist economic development projects. Demand for VSBFA loan programs, particularly through local IDA/EDA's may increase as other funding sources disappear.

VSFBA has lost 30% of its staff in FY05 due to program funding cuts and increased difficulty maintaining and filling remaining positions as private sector salaries rise as compared to state salaries and opportunities for challenge and growth disappear. General fund appropriations or a designated funding source is needed.

Service Area Human Resources Summary

Service Area Human Resources Overview

As of fiscal year 2006, the VSBFA had 9 FTE classified positions; of these, only 1 is considered "nonrestricted" due to its 100% general funding. All remaining positions are "restricted" due to their non-

Service Area Plan

Department of Business Assistance

Financial Services for Economic Development (53423)

general fund funding source. (Prior to fiscal year 2000, the VSBFA had 2 general funded "unrestricted" positions but had to relinquish one due to budget cuts). Given the decline in VSBFA's non-general fund revenues due to a significant loss of funds, we are requesting 2 additional general fund FTE's but will not add headcount unless funds and product demand increase.

Service Area Full-Time Equivalent (FTE) Position Summary

Effective Date:

Total Authorized Position level

Vacant Positions

Non-Classified (Filled).....

Full-Time Classified (Filled)

Part-Time Classified (Filled)

Faculty (Filled)

Wage

Contract Employees

Total Human Resource Level

Factors Impacting Service Area Human Resources

Anticipated Changes in Service Area Human Resources

Service Area Financial Summary

The primary source of revenue for the service area has been derived from fees and interest earned through the financing programs (\$788,000) in FY 2004, funding sources which can be used for operating expenses, however, are capped. VSBFA also received \$198,500 in FY 2006 support from DBA. Revenues will decline markedly in FY 2006 given the elimination of the state-funded EDLF.

Increased demand over the past three years, coupled with a lack of capitalization over the past ten years, has nearly exhausted the available funding. The VCAP program is projected to run out of funding in FY 2006. The EDLF and ECAF programs could also be deplete of funding in FY 2006 based on historical usage. The demand for VSBFA products and services are anticipated to increase as the banking industry continues to consolidate and maintain tight credit standards and the equity financing industry continues to steer clear of "seed" investments. A statewide direct loan program is needed.

In order to continue its current level of service the loan funds will need to be recapitalized. Therefore we are submitting a one-time request of \$5,000,000.

	<u>Fiscal Year 2007</u>		<u>Fiscal Year 2008</u>	
	General Fund	Nongeneral Fund	General Fund	Nongeneral Fund
Base Budget	\$198,500	\$1,120,033	\$198,500	\$1,120,033
Changes To Base		\$41,329		\$9
SERVICE AREA TOTAL		\$1,161,362		\$1,120,042

Service Area Plan

Department of Business Assistance

Financial Services for Economic Development (53423)

Service Area Objectives, Measures, and Strategies

Objective 53423.01

Increase financing to small businesses for fixed asset and working capital needs to support their growth when the private lending sector cannot fully assist.

Increasing opportunities for businesses to obtain the capital required to grow in order to increase employment and investment in the Commonwealth is at the heart of the mandate provided in Section 2.2-2279, the Virginia Small Business Financing Act. Through its direct loan, indirect loan, and conduit financing programs, the VSBFA fulfills this mission. This objective is also consistent with DBA's mission of promoting economic growth by helping Virginia businesses prosper.

This Objective Supports the Following Agency Goals:

- Develop creative applications of public and private financing for the benefit of new and expanding businesses and assist in the creation or retention of jobs.
(Use the Outreach team to promote our services in Limited English Speaking community and other niche markets i.e., home based businesses, library patrons, students in entrepreneur classes, etc. As mentioned earlier, new immigrants are more likely to start businesses. By target marketing our business formation services in the communities, we will cover a fasting segment of entrepreneurs. We will also align the promotion of our business formation services in venues where entrepreneurs matriculate.)

This Objective Has The Following Measure(s):

- **Measure 53423.01.01**

Funds committed by the Virginia Small Business Financing Authority.

Measure Type: Output **Measure Frequency:** Annually

Measure Baseline: \$11.2 million (FY05)

Measure Target: \$1 million (FY07) Reduction of target is due an increase in demand causing a strain on funds. Target based on projected repayments of P&I.

Measure Source and Calculation:

Data is collected from loan accounting and activity reports submitted by project managers and loan accounting personnel as loans are approved.

- **Measure 53423.01.02**

Number of businesses receiving loans from the Virginia Small Business Financing Authority.

Measure Type: Output **Measure Frequency:** Annually

Measure Baseline: 183 (FY05)

Measure Target: 19 (FY07) Reduction of target is due an increase in demand causing a strain on funds. Target based on projected repayments of P&I.

Measure Source and Calculation:

Data is collected from financing program applications supplied by customers and banking partners and verified at the time of loan closing.

Service Area Plan

Department of Business Assistance

Financial Services for Economic Development (53423)

- **Measure 53423.01.03**

Number of jobs created by businesses receiving loans from the Virginia Small Business Financing Authority

Measure Type: Outcome **Measure Frequency:** Annually

Measure Baseline: 2,315 (FY05)

Measure Target: 185 (FY07) Reduction of target is due an increase in demand causing a strain on funds. Target based on projected repayments of P&I.

Measure Source and Calculation:

Data is collected from loan accounting and activity reports submitted by project managers and loan accounting personnel as loans are approved.

- **Measure 53423.01.04**

Private capital investment by businesses receiving loans from the Virginia Small Business Financing Authority

Measure Type: Output **Measure Frequency:** Annually

Measure Baseline: \$70.8 million (FY05)

Measure Target: \$5 million (FY07) Reduction of target is due an increase in demand causing a strain on funds. Target based on projected repayments of P&I.

Measure Source and Calculation:

Data is collected from financing program applications supplied by customers and banking partners and verified at the time of loan closing.

Objective 53423.01 Has the Following Strategies:

- VSBFA will develop a marketing plan to include target goals for number of presentations and calls on businesses, economic developers, banks, IDA/EDA's, non-profits, Small Business Development Centers, Chambers of Commerce, attorney's, accountants, and organizations that represent the entities listed above.
- VSBFA will maintain a goal of one-week response time on all complete loan applications that are able to be approved within the staff's designated authority.
- VSBFA will conduct periodic statewide surveys of the above listed entities, particularly economic developers and banks, to determine the level of customer satisfaction as well as identify any changing needs in the area of economic development finance.
- VSBFA will actively work with other state agencies to assist in their efforts to create loan programs that will meet the needs of their constituency in an effective and efficient manner.